

**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY TO THE  
CALIFORNIA AIR RESOURCES BOARD ON THE WORKSHOP TO DISCUSS  
POTENTIAL REVISIONS TO THE REGULATION FOR MANDATORY REPORTING  
OF GREENHOUSE GAS EMISSIONS**

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## I.

### **INTRODUCTION AND EXECUTIVE SUMMARY**

Southern California Edison Company (“SCE”) respectfully submits its comments to the California Air Resources Board (“ARB”) on its Workshop to Discuss Potential Revisions to the Regulation for Mandatory Reporting of Greenhouse Gas Emissions, held June 26, 2013 (“June 26 Workshop”). SCE appreciates the opportunity to comment on the topics discussed in that workshop, notably specified source contracts, the future Energy Imbalance Market (“EIM”), and the schedule for emissions data verification. These topics are important to well-functioning power markets and an efficient cap-and-trade program, and thus deserve careful consideration.

SCE’s comments respond to three themes stemming from the June 26 Workshop:

(1) clear power contract requirements for specified sources are necessary and crucial to the smooth functioning of power markets; (2) the ARB should not add language describing the future EIM until it is finalized; and (3) an earlier verification reporting deadline is not desirable for covered entities, verifiers, or the ARB. As a market participant interested in controlling costs for its customers, SCE welcomes this opportunity to share its perspective and recommendations.

## II.

### **SPECIFIED SOURCE CONTRACTING ISSUES**

#### **A. The ARB Should Clarify the Requirements for Power Contracts for Specified Source Electricity to Verify the Intent and Ability of Both Parties to Transact Specified Source Electricity**

In its June 26 Workshop presentation, the ARB included in its rationale for updating the Mandatory Reporting Regulation (MRR) the need to “clarify requirements” around the “sale or

resale of specified source electricity.”<sup>1</sup> SCE agrees with this statement and adds that the rationale for clarifying these requirements is actually twofold: to demonstrate the intent of both parties to transact specified source electricity; and to verify the specified nature of the electricity in the event that the seller of the electricity is not the owner or operator of the generating facility or unit.

To the first point, SCE requests that the ARB clarify the precise language required in a power contract for a specified source to demonstrate the clear intent of both parties to a transaction to transact specified source electricity. The current language lacks clarity, creating the possibility that the ARB’s interpretation of the power source transacted in the contract could differ from the interpretation of the parties to the transaction. Such a misinterpretation could result in the buyer becoming liable for a compliance obligation corresponding to the unspecified emission factor, rather than some lower specified emission factor agreed to at the time of the transaction. In order to codify the requirements for language to be included in a power contract for a specified source in a way that makes clear the intent of both parties to transact in specified source electricity, SCE recommends that the ARB add the following underlined language to the definition of a power contract for a specified source:<sup>2</sup>

A power contract for a specified source is a contract that is contingent upon delivery of power from a particular facility, unit, or asset-controlling supplier’s system that is designated at the time the transaction is executed. Any power contract that is reported as a power contract for a specified source must state explicitly that the transaction is for the purchase and sale of generation from a specified source or portfolio of specified sources.

To the second point, the MRR does not provide clear guidance regarding how to report a transaction for specified source electricity in which the seller is an entity other than the owner or

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<sup>1</sup> ARB, “Mandatory Reporting Workshop: Potential Updates to the California Regulation for the Mandatory Reporting of Greenhouse Gas Emissions,” ARB Public Workshop to Discuss Potential Revisions to the Mandatory GHG Reporting Regulation (“ARB Workshop Presentation”), June 26, 2013, at 10, available at <http://www.arb.ca.gov/cc/reporting/ghg-rep/revision-2013/mrr-june-workshop2013-1p.pdf>.

<sup>2</sup> Cal. Health & Safety Code § 95102(a)(351).

operator of the generating facility or unit. For example, if a wind power facility owner sells electricity at a specified emission factor to a power marketing entity, and the marketing entity then resells that electricity to an electric utility, how does the utility verify the specified nature of its electricity purchase in its emissions report? To address this ambiguity in the MRR, SCE recommends that for specified source electricity that has not been purchased directly from the facility or unit owner/operator, the ARB require the reporting entity (i.e. the electric utility in this example) to demonstrate that the specified source electricity was transacted according to the terms of a power contract in which the seller represents and warrants that the seller has the right to sell the electricity as a specified source. Accordingly, SCE recommends that the ARB add the following underlined language to the reporting requirements for Imported Electricity from Specified Facilities or Units:<sup>3</sup>

When reporting imported electricity from specified facilities or units, the electric power entity must disaggregate electricity deliveries and associated GHG emissions by facility or unit and by first point of receipt, as applicable. For electricity imports from specified facilities or units in which the electric power entity purchased electricity from a seller other than the owner or operator of the specified facility or unit, the electric power entity must be able to provide a power contract in which the seller represents and warrants that such seller had the right to sell the electricity as specified source electricity, in accordance with ARB rules governing specified sources.

**B. The ARB Should Amend the Definition of “Specified Source of Electricity” to Clarify That Electronic Writings May Constitute Acceptable Confirmation for a Valid Power Contract**

As written, the definition of a “specified source of electricity” states that “the reporting entity must have either full or partial ownership in the facility/unit or a written power contract to procure electricity generated by that facility/unit”<sup>4</sup> in order to claim the electricity originating

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<sup>3</sup> Cal. Health & Safety Code § 95111(a)(4).

<sup>4</sup> Cal. Health & Safety Code § 95102(a)(432).

from that facility/unit as a specified source. Under the standard practices of the Western Systems Power Pool (“WSPP”), however, electronic writings may also constitute legal confirmation for a transaction of electricity. The term “electronic writing” is defined in the WSPP agreement to include “[r]ecorded oral conversation; or (2) electronic communications.”

In order to keep its transaction documentation requirements consistent with those accepted by the WSPP, the ARB should specify that electronic writings may constitute acceptable documentation of a valid power contract. To do so, SCE recommends that the ARB amend its definition of a “specified source of electricity” as follows:

The reporting entity must have either full or partial ownership in the facility/unit or a valid written power contract to procure electricity generated by that facility/unit. A written contractual document, a recorded oral conversation, or electronic communications may all constitute proof of a valid power contract for a specified source of electricity.

Adding this language to the MRR will clarify the contractual requirements involved in transacting specified sources of electricity, thereby expediting the flow of least-cost sources of electricity through the western power grid and improving efficiency in the California power market.

### III.

#### **ENERGY IMBALANCE MARKET ISSUES**

##### **A. ARB Should Not Add Language Describing the Future EIM until the California Independent System Operator’s (CAISO) Proposal is Finalized**

At the June 26 Workshop, ARB offered new language for the purpose of including electricity imports from the EIM as subject to the MRR:

“Electricity Importers also include EIM Entity Scheduling Coordinators serving the EIM market that result in a portion of the export allocation to California as imports.”<sup>5</sup>

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<sup>5</sup> ARB Workshop Presentation, at 11.

The ARB should delay this EIM-related language modification because the CAISO's proposal for its new EIM is still in flux. A new iteration of the EIM proposal was just published on July 2, and another version is expected in August.<sup>6</sup> After CAISO staff and stakeholders complete an EIM proposal, it will be sent to the CAISO Board in November, and then to the Federal Energy Regulatory Commission ("FERC") in early 2014.<sup>7</sup> At every step of this process, the proposal, including its treatment of greenhouse gases and the associated terminology, could change. Terms such as "EIM Entity Scheduling Coordinators" and methodologies such as an "export allocation," to which the ARB refers in its proposed language, may change throughout the design process. SCE recommends that the ARB not modify the definition of "Electricity Importers" to address the EIM until FERC approves the EIM language.

Because the ARB has expressed its intent to make these regulatory changes in the fall – before the EIM design will be complete – SCE recommends that the ARB use only flexible and general language (if any language is to be put forward at all). If the ARB decides to include language to address the EIM in its fall 2013 regulatory changes, SCE recommends the following language in place of the language proposed at the June 26 Workshop:

"Electricity Importers also include EIM participants whose sales are attributed to serving California load."

In the future, the ARB would have to update its regulation, or produce a regulatory guidance document, after CAISO's EIM design is finalized in order to more closely identify EIM participants included as Electricity Importers. For this reason, SCE strongly recommends that the ARB refrain from promulgating EIM language until after the CAISO finalizes its design.

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<sup>6</sup> California Independent System Operator, Energy Imbalance Market 2<sup>nd</sup> Revised Proposal, July 2, 2013, at 7, [http://www.caiso.com/Documents/SecondRevisedStrawProposal-EnergyImbalanceMarket-Jul2\\_2013.pdf](http://www.caiso.com/Documents/SecondRevisedStrawProposal-EnergyImbalanceMarket-Jul2_2013.pdf).

<sup>7</sup> *Id.*

## IV.

### **VERIFICATION DEADLINE**

#### **A. An Earlier Verification Reporting Deadline is Not Desirable**

At the June 26 Workshop, ARB proposed a new verification deadline of August 15, two weeks earlier than the current September 1 deadline. SCE believes this new deadline is undesirable for the ARB, covered entities, and verifiers, as it would only add additional pressure on an already complex and labor-intensive verification process – a process that will not benefit from being rushed.

The verification process requires multiple employees from covered entities and verifiers to access, analyze, extract, and review extensive data sets. These data include thousands of North American Electric Reliability Corporation energy tags containing dozens of items of information that represent the thousands of power transactions executed during the year. The ARB encourages verifiers to “strongly consider” holding site visits, which require full-day commitments from multiple employees from the covered entity and verification body.<sup>8</sup> Tighter resource constraints during a shortened verification window could introduce a greater risk of inaccurate or incomplete verification reports, which would receive an adverse rating from the ARB. A higher incidence of adverse verification reports would require additional time and resources from the verifiers and compliance entities to correct and amend the reports, as well as additional time and resources from the ARB to review the amended reports.

For the reasons described above, an earlier verification reporting deadline would in fact lead to additional resource commitments from all parties participating in the verification process, and thus would be undesirable for the smooth administration of the ARB’s cap-and-trade program.

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<sup>8</sup> ARB, “Tips for a Successful ARB GHG Report Verification” (April 24, 2013), at 42.

V.

**CONCLUSION**

In summary, these comments have articulated three themes: (1) clear power contract requirements for specified sources are necessary and crucial to the smooth functioning of power markets; (2) the ARB should not add language describing the future EIM at this time since its final form has yet to be determined; and (3) an earlier verification reporting deadline is not desirable for covered entities, verifiers, or the ARB. SCE appreciates this opportunity to comment on the June 26 Workshop and urges the ARB to make changes to the MRR in accordance with the recommendations contained herein.

Respectfully submitted,  
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